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SETTING THE RECORD STRAIGHT: Doing Business in Boston

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Setting the Record Straight: Doing Business in Boston Report Highlights

- The 5.8% increase in the average annual wage in the Boston area from 1989 to 1990 was significantly lower than that experienced by many other metro areas; Boston ranked 41st in average annual wage growth. While the Boston area had the 12th highest 1990 average annual wage level in the nation, it was surpassed by several other major metro areas, including New York, San Francisco and Washington, D.C.
- Office space in Boston is competitive, if not less expensive, than other comparable major cities in the nation.
- Average rents for manufacturing and warehouse space declined by 17% in Boston from the second quarter of 1990 to the second quarter of 1991. Among 15 American cities whose industrial rents were analyzed for this study, Boston was one of only five cities whose industrial rents fell over the past year, making Boston increasingly competitive.
- Rents for industrial high-tech/R&D space in Boston declined by 13% over the past year. Among the 15 cities whose industrial rents were analyzed, Boston experienced the most rapid rate of decline in industrial R&D/high-tech rents.
- Among 16 major metro areas across the nation, Boston experienced one of the most rapid declines (3%) in median sale price for single-family homes from the second quarter of 1990 to the second quarter of 1991.
- The increase in Boston's consumer prices is slowing down and is now comparable to the national average.
- Boston currently has an "A" bond rating from both Moody's and Standard and Poor's, a reflection of Boston's exceptional fiscal stability.
- Among 10 large cities surveyed by the Site Selection magazine, Boston ranks first for the strength of its educational system, a strong indicator of quality of life.
- In the first nine months of 1991 compared to the first nine months of 1990, Boston had the greatest decrease in Part One and violent crimes of 19 major cities.
- Public transportation in Boston is the least expensive among the six large American transit systems surveyed by the MBTA.

Introduction

Turn the pages of any business or trade magazine today and you will find dozens of advertisements urging businesses to come to various states, regions and cities. What you will not find among these promotional ads by Chambers of Commerce, utilities and governments is any information about New England, Massachusetts, or Boston.

Boston has an important story to tell, one which is becoming more interesting by the day. When all locational factors are considered, including the cost of factors of production, Boston is perhaps the best business location in America. Yet for the past decade, no one has told this story. We didn't need to. But, with the economy in recession, and Boston's reputation as a business location tied to outdated impressions and data, it is time to get the message out.

Mayor Raymond L. Flynn, and the Economic Development and Industrial Corporation have initiated a major effort to tell Boston's story and promote the city as an excellent place to do business. While we are aware that major job growth comes from existing businesses, retaining growing companies and attracting new firms is critical to our continued economic well being.

Boston's promotional effort began in October with the publication of a twelve page supplement in Business Week magazine entitled Boston: revolutionizing business opportunity. In addition to this supplement, which reached over 3 million readers, copies, along with other promotional materials are being forwarded to hundreds of growing firms in carefully targeted industries such as biomedical and environmental production.

In December, Boston's promotional effort will continue with advertising and resource listings in Site Selection magazine, the major national publication for businesses seeking new locations. And, in January, EDIC will produce an advertising supplement highlighting Boston's many advantages in Barrons magazine. These promotional efforts will continue throughout the new year with additional advertising and carefully targeted direct mailings to growing companies seeking to expand into new regions. Boston's new promotional program will stress the many advantages of the city and dispel the myth that Boston is not cost-competitive.

Changing Markets and New Challenges

The globalization of markets and companies is challenging nearly every American city to build a more competitive environment. In more and more industries, American cities are no longer competing among themselves, but internationally as well. However, cities, such as Boston, can sustain competitive environments through the presence of major clusters of industries, exceptional fiscal stability, quality factors of production, and a superior quality of life.



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In the eighties, Boston had a competitive advantage in nearly every growing industry cluster: health care, high technology, financial services, and information technology. Though Boston has managed to retain its competitive advantage in health care and other industries, there has been much speculation on whether or not Boston can still compete for American and international businesses. Can Boston attract and keep major employers and thriving small to mid-sized companies?

Boston's fiscal stability is a major accomplishment by Mayor Raymond L. Flynn which will continue to attract national attention. Companies looking to relocate or expand can look to Boston's "A" bond rating as a sign of stability and fiscal discipline which will encourage further investments into the city. Boston's exceptional bond rating follows six straight years of balanced budgets, tight fiscal controls, and high quality city services.

Aside from Boston's fiscal stability, Boston will need to be competitive in terms of cost and quality in order to attract and increase business activity. Boston's competitiveness will depend upon its ability to keep the quality of factors of production up while keeping their costs down. The cost and quality of factors of production are as important in enhancing the competitiveness of a city as it is to a company. Companies, who themselves need to remain competitive, will be attracted by cities which have access to highly skilled and educated residents; quality and affordable land and capital, and access to local and international markets, sophisticated infrastructure which will support the movement of goods, people, and information, and a quality of life which will attract and retain employees.

This analysis of Boston's competitiveness in relation to other major American cities indicates that Boston is an excellent business location, not only because of the strength of its diverse economy, but also because of the abundance of quality and cost-competitive factors of production. Contrary to the findings of a recent issue of Fortune magazine which indicated that Boston has priced itself out of the market for both American and international businesses, data tracked by EDIC indicate that Boston remains competitive with major cities and metropolitan areas across the nation, especially in terms of cost and quality of life.

Cost Factors

Companies are looking to keep their business costs down, especially in these times of economic and business slowdown. Cost of labor, industrial, and office space are among those which are playing an increasingly important role in keeping businesses within the city or in attracting businesses to move into the city.

Labor

Bureau of Labor Statistics data revealed that every single metropolitan area, except for two, experienced an increase in their average annual wage between 1989 and 1990.

The increase in the average annual wage in the Boston area is far lower than commonly believed. The increase in the Boston area's average wage between 1989 and 1990 was not as rapid as that experienced by other major metro areas, including New York, San Francisco, and Philadelphia which are all major competitors in emerging industries such as biotechnology and environmental technology. Boston ranked 41st with a 5.8% annual growth rate in annual average wage from 1989 to 1990. This compares favorably to New York which ranked 17th with a 6.5% annual growth, San Francisco which ranked 33rd with a 5.9% annual growth, Philadelphia which ranked 24th with a 6.2% annual growth rate, and many other areas.

Further, while the Boston area had the 12th highest 1990 average annual wage level (\$28,484) among the nation's metropolitan areas, it was surpassed by other major American metro areas, including New York (ranked second with an average annual pay of \$33,669), San Francisco (ranked 7th, \$30,325), and Washington, DC (ranked 10th, \$29,384).

Office Rents

Office space in Boston is competitive, if not less expensive, than other comparable major cities across the nation. The average rental rate for Class A office space in Boston is \$29.06. This is only slightly higher than the rental rates in Fortune's list of "more favored cities" including Atlanta, Orlando, Dallas and Phoenix-- none of which are in regions which have traditionally had more expensive office real estate.

Data from Cushman and Wakefield's "Across the Nation" report (second quarter 1991) indicates that Boston's office rates are less expensive than cities within the Northeast where cost is and has always been higher, and is competitive with cities in other regions which are believed by many to be a lot less expensive than cities like Boston.

Office vacancy rate in Boston (17.3%) is lower than cities in Fortune's "more favored cities" list -- Dallas (29.6%), Phoenix (25.5%), Austin (21.9%), Atlanta (21.4%).

Industrial Rents

Average rents for manufacturing and warehouse space declined by 17% in Boston from the second quarter of 1990 to the second quarter of 1991. Among a group of 15 American cities whose industrial rents were analyzed for this study using Cushman & Wakefield data (the 15 surveyed cities include Fortune's "most favored cities" as well as

other major industrial cities), **Boston was one of only five cities whose industrial rents fell over the past year.** Among the five cities, Boston experienced the second fastest rate of decline in average industrial rents. Other cities which experienced declines in their industrial rents include Chicago (25% drop), Philadelphia (16% drop), and San Francisco and Dallas (4% drop each).

Among the 15 cities, five cities have higher average industrial rents than Boston (\$5.00). These cities are Hartford (\$7.50), Phoenix (\$6.24), San Francisco (\$6.00), Pittsburg (\$5.36), and Los Angeles (\$5.28). Boston's average industrial rents are closely competitive with the other 10 cities in the survey.

Boston is gaining an additional competitive edge in industrial high-tech/R&D space where average rent has declined by 13% over the past year. Among the 15 cities included in EDIC's industrial rents analysis, **Boston experienced the most rapid rate of decline in average industrial high-tech/R&D rent over the past year while posting the fifth lowest average rent (\$7.75).** Only Austin, Seattle, Dallas, and Atlanta posted lower average industrial high-tech/R&D rents than Boston in the second quarter of this year.

Housing

Housing is an indirect cost to business, but one which directly affects the ability of firms to attract and keep employees. It has been noted many times during the mid to late 1980s that Boston's over-inflated housing market was a serious obstacle for business location and expansion. Beginning in 1990, major re-adjustments in the housing market began to have important impacts on business location calculations.

The median price of a single-family home fell in the Boston area during the second quarter of 1991. Among 16 major metropolitan areas across the nation, Boston experienced one of the most rapid declines in the median sale price for single-family homes (3% decline, tied with Seattle). Meanwhile, slower declines or continuing increases in sale prices were recorded in the other major metropolitan areas -- New York (1.7% decline), Los Angeles (1.2% increase), Chicago (8.3% increase), and Portland, OR (8.5% increase).

The median sale price of single-family homes in the Boston area (\$171,300) is now significantly lower than several other major metropolitan areas in the nation such as San Francisco (\$265,200), Los Angeles (\$219,600), and New York (\$172,400).

Consumer Prices

The increase in Boston's consumer prices is slowing down. From September 1990 to September 1991, Boston's consumer prices increased by only 3.5%; the smallest annual gain since January 1987. This small gain is also only slightly higher than the

increase in consumer prices across the nation which experienced an increase of 3.4% from September 1990 to September 1991. From August of last year to August of this year, consumer prices across the nation increased by 3.8%.

Fiscal Stability

Fiscal stability is a factor often cited by companies seeking new locations or local companies thinking about expansion. In the fiscal arena, Boston has a great deal to be proud of. Boston currently has an "A" bond rating from both Moody's and Standard and Poor's; the highest in the city's history. This exceptional bond rating follows six straight years of balanced budgets coming on the heels of 10 years of budget deficits from the previous administration. The balanced budgets reflected tight fiscal controls while maintaining high quality city services. To achieve fiscal stability, Mayor Flynn initiated a highly successful five year capital plan and a performance-based management review system which tracks the effectiveness of departmental performance.

Boston's fiscal performance has attracted national attention. According to Dean Witter, Boston's financial performance "may serve as a source of inspiration" to municipalities throughout the nation. And, City and State magazine recently noted that Boston, under Mayor Flynn's leadership, "has maintained its financial balance even as the economy has soured in recent years and state aid has vaporized".

Quality of Life and Workforce

Business costs comprise only part of the picture of business attraction and retention strategies. Companies' successes rely to a large degree on their ability to attract and retain a quality labor force.

Site Selection magazine's most recent survey of Fortune 500 companies indicated that quality-of-life considerations are now key factors in attracting and retaining a strong work force. Quality-of-life considerations are also used as "tie-breakers" in cases where potential sites/cities are equal in terms of costs. Forty-six percent of survey respondents indicated that quality-of-life considerations are more important in their firms' location searches now than five years ago.

In the quality-of-life survey conducted by Site Selection, Boston was ranked among the ten largest cities and received a higher ranking than Los Angeles and New York. Boston received a ranking of 2.1 (where 3 is the highest ranking and 1 is the lowest).

Educational System

Among ten major cities surveyed by Site Selection magazine, **Boston received the highest rating in terms of strength of educational system**, due largely to the many educational and research institutions in the region. This will continue to be a key attraction to companies and their workforces.

Boston's intellectual infrastructure has created the entrepreneurial environment which has stimulated growth not only within Boston, but within the region. The region is home to 65 colleges and universities and 33 major hospitals or medical research centers, from which new ideas, new products, and new opportunities have emerged.

Security

Recent national crime surveys indicate that in the first nine months of 1991 compared to the same period in 1990, Boston experienced the greatest decrease in Part One and violent crimes of any city in the 19-city survey, including San Francisco, San Diego, Denver, Atlanta, St. Louis, and Dallas. Boston's homicide rate of 15.75 per 100,000 is well below the national average of 22.8 per 100,000.

Transportation

Public transportation (subway and buses) in Boston is the least expensive among the six large American transit systems surveyed recently by the MBTA. The MBTA's base subway fare is \$.85, as compared to Atlanta's \$1.00, New York's \$1.15, Philadelphia's \$1.50, Washington, D.C.'s \$.85 -\$2.55, and Chicago's \$1.25.

Additionally, Boston has in Logan Airport one of the most easily accessible airports of any major city in the nation.

Conclusion

Boston is perhaps the finest place to do business in America. Our intellectual infrastructure, tradition of entrepreneurship, and quality of life are second to none. But as important, in a time when cost savings are at a premium, Boston is cost competitive. When compared to other cities with Boston's resources and desirability, our cost of doing business is highly competitive. Increasing cost competitiveness across all major cost categories bodes well for Boston's future economic growth. It now remains for the business community and government to tell this story.

**Average Annual Pay Levels
Top 20 Metro Areas, 1990**

<u>Rank</u>	<u>Metro Area</u>	<u>1990 Annual Pay</u>
1	Bridgeport-Stamford-Norwalk-Danbury, CT	\$34,313
2	New York, NY	33,669
3	San Jose, CA	32,669
4	Anchorage, Alaska	30,957
5	Middlesex-Somerset, NJ	30,572
6	Newark, NJ	30,521
7	San Francisco, CA	30,325
8	Trenton, NJ	30,133
9	Bergen-Passaic, NJ	29,744
10	Washington, D.C.	29,384
11	Hickory, NC	28,767
12	Boston-Lawrence-Brockton-Salem-Lowell	28,484
13	Los Angeles-Long Beach, CA	28,084
14	Detroit, MI	27,900
15	Flint, MI	27,558
16	Chicago, IL	27,526
17	Providence-Pawtucket-Woonsocket, RI	27,433
18	Oakland, CA	27,286
19	Jersey City, NJ	27,221
20	Kokomo, IN	27,104

Source: Bureau of Labor Statistics, August 1991.

% Change in Industrial Rents 2ndQ 1990 - 2ndQ 1991



Data derived from Cushman & Wakefield, "Across the Nation".

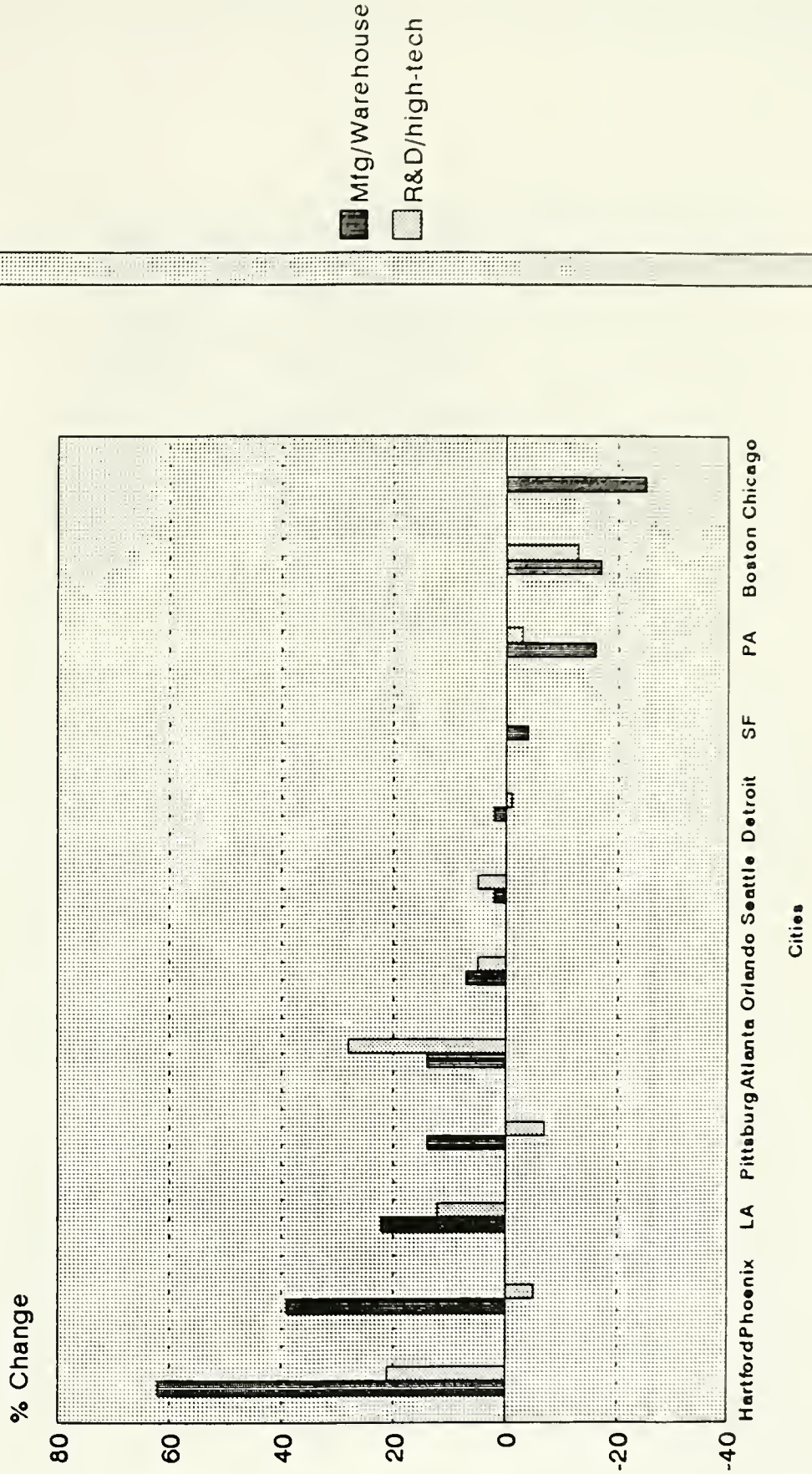
**Comparative Downtown Office Rents in Major Cities in the U.S.
Second Quarter, 1991**

<u>City</u>	<u>Average Rent</u>	<u>Vacancy rate (%)</u>
Austin*	\$17.19	21.9%
Nashville*	19.82	19.0
Phoenix*	19.96	25.5
Pittsburg*	20.28	16.2
Dallas*	20.33	29.6
Seattle	22.39	13.8
Orlando*	24.15	15.8
Atlanta*	24.31	21.4
San Francisco	26.26	14.3
Boston	29.06	17.3
Chicago	30.66	17.6
Los Angeles	31.40	22.6
Washington, DC	37.74	13.1
New York	40.90	17.2

* among top 10 cities identified by Fortune's Survey

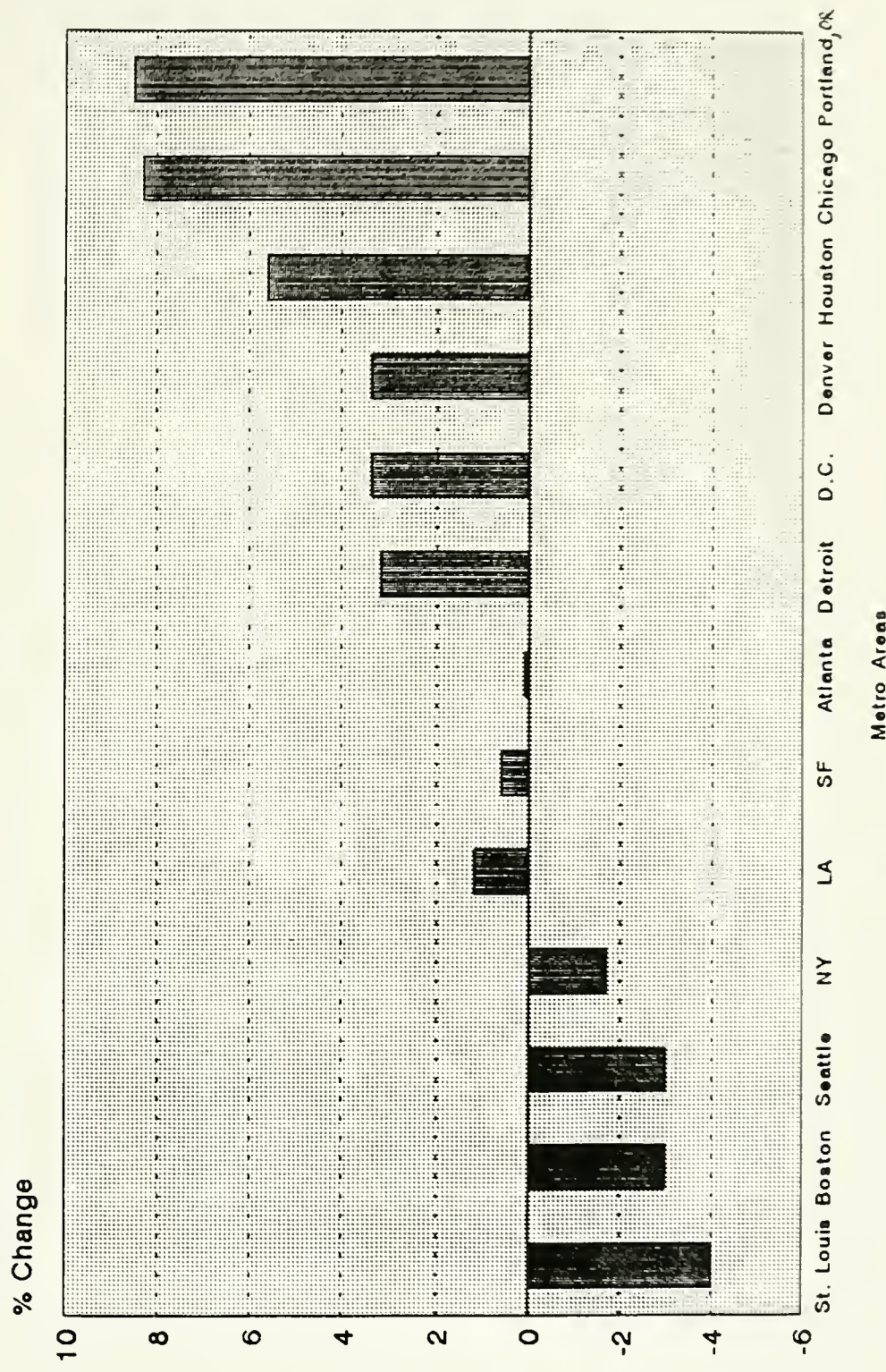
Source: Cushman & Wakefield, 1991

% Change in Industrial Rents 2ndQ 1990 - 2ndQ 1991



% Change in Home Sale Prices, 2ndQ 1990 - 2ndQ 1991

U.S. Metro Areas



Source: National Association of Realtors.

Transportation Rates for Large American Transit Systems

Subway Fares

MBTA	\$.85
Atlanta	1.00
New York	1.15
Philadelphia	1.50
Washington, D.C.	.85 - 2.55 Based on distace
Chicago	1.25

Bus Fares

	<u>Local</u>	<u>Express</u>
MBTA	\$.60	\$1.25-1.90
Los Angeles	1.10	1.50
Atlanta	1.00	1.00
New York	1.15	4.00
Philadelphia	1.50	1.50
Washington, D.C.	.85	1.15-1.60
Chicago	1.00-1.25	1.20-1.45

Source: MBTA, 1991

